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Report On Business

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Purchasing Index Falls to 48.7%

Production Off; New Orders Steady

Prices Continue To Decline

Analysis by the Business Survey Committee; chairman, Robert J. Bretz, C.P.M., director of purchasing and distribution, Pitney Bowes, Inc.

The *Report on Business* is published monthly by the National Association of Purchasing Management, based on data compiled from replies to questions asked of purchasing managers in some 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification category, based on each industry's contribution to national income.

April Report

The economy slowed in April, say the nation's purchasing managers in their latest **Report on Business.** Production levels decreased from the high levels experienced since January. However, new orders remained up. The 37% of members reporting better new orders is the largest percentage since June 1984. The speed of vendor deliveries increased, reflecting the reduced production level. Net inventories fell for the third consecutive month. Employment declined in April after improving slightly in March. Prices tumbled in April, registering the seventeenth consecutive month in which prices have been the same or lower.

"The economy entered the second quarter at a decidedly slower pace with production, inventory, and employment levels down. However, the rate of new orders continues strong. Combined with lower inflation, these could be the basis for an improving economy in the months ahead," said Robert J. Bretz, C.P.M., chairman of the Business Survey Committee and director of purchasing and distribution, Pitney Bowes, Inc.

The **Purchasing Managers' Composite Index** decreased to 48.7% from 50.4% in March. This ends the run of seven consecutive months that this leading indicator has registered over 50%. A continuation under 50% would be of concern. The index was last under 50% for seven months from February through August 1985. A reading below 50% generally indicates that the economy is in a declining phase: above 50%, that the economy is generally expanding. The index is based on analysis by the U.S. Department of Commerce. Except for this index, the information in this report is not seasonally adjusted.

Net Difference

In each category measured, this report shows a net difference. It is the difference between the number of responses in the positive direction (higher, better, faster) and the negative direction (lower, worse, slower). Analysis of the month-to-month difference compares the rate of change.

Employment

Employment levels continued at a depressed level in April. The 3-point increase in those reporting higher employment (from 11% to 14%) was less than the 4-point decrease in those indicating lower employment (from 18% to 22%).

Employment %	Higher	Same	Lower	Net Differ.
April	14	64	22	– 8
March	11	71	18	– 7
February	10	65	25	–15

Buying Policy

Lead times for production materials were virtually unchanged in April from March, as 62% of members reported lead times of 30 days or less. The 53% reporting lead times of six months or longer for capital expenditures was down from 55% in March. After extending in March, lead times for MRO supplies declined in the 30-day category to 46% from 50%.

Production Materials %	Hand to Mouth	30 Days	60 Days	90 Days	6 Months and Longer
April	16	46	22	10	6
March	15	45	28	5	7
February	18	43	25	8	6
MRO Supplies %					
April	41	46	9	1	3
March	41	50	6	1	2
February	41	46	9	2	2
Capital Expenditures %					
April	17	4	5	21	53
March	15	6	6	18	55
February	18	4	7	20	51

Semiannual Forecast

Purchasers forecast that the economy will continue to grow moderately in 1986. By a margin of 3 to 1, purchasers expect that 1986 will be better than 1985. A significant 46% said the first quarter of 1986 proved to be better for their companies than was the last quarter of 1985, with 36% saying they are currently operating at 90% or greater of plant capacity. Moreover, 48% believe that the second quarter of 1986 will be even better than was the first quarter. Growth is expected to continue throughout the third and fourth quarters with 46% of members predicting that the second half of 1986 will be better than was the first half. Purchasers expect prices to increase only slightly, on a selective basis, during the balance of 1986. While members appear uncertain about continued growth into the first quarter of 1987, overall they are very optimistic about the next twelve months.

In their last Semiannual Forecast (December 1985), purchasers had predicted that the economy would expand in the first quarter of 1986, accelerate its growth in the second quarter, experience inflation through the first half of 1986, and that 1986 would be better than 1985.

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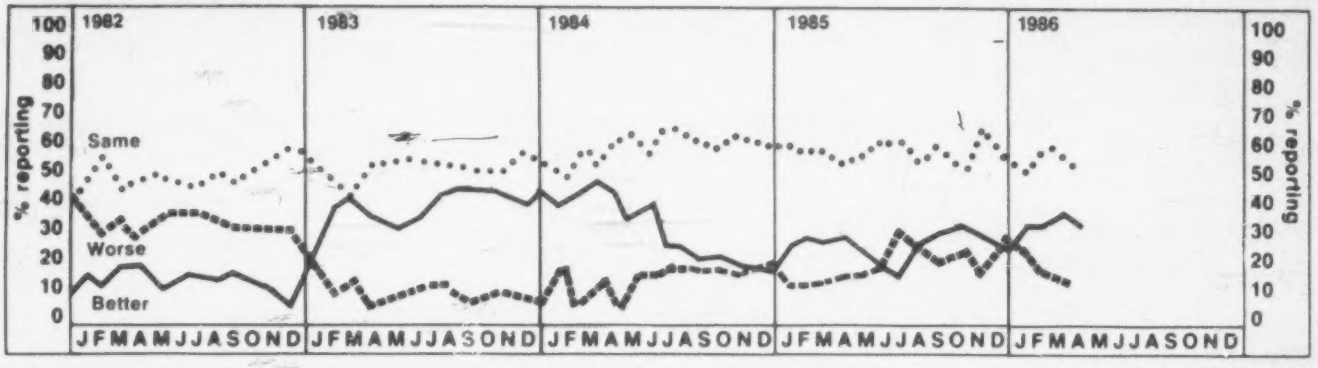
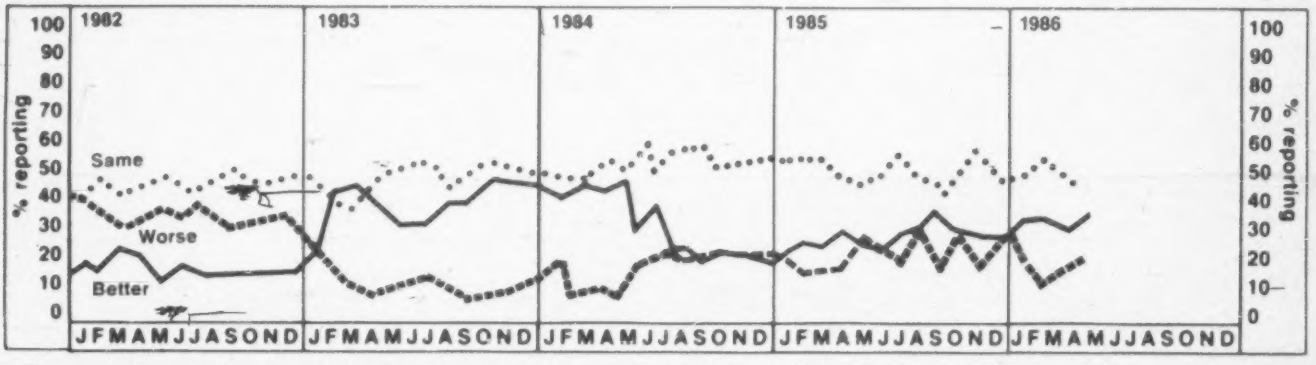
Production



Production decreased in April after increasing for the past three months. The 32% indicating better production was more than offset by the 18% reporting worse production, resulting in a net difference decline to +14 from +23 in March.

Production %	Better	Same	Worse	Net
April	32	50	18	+14
March	35	53	12	+23
February	31	54	15	+16

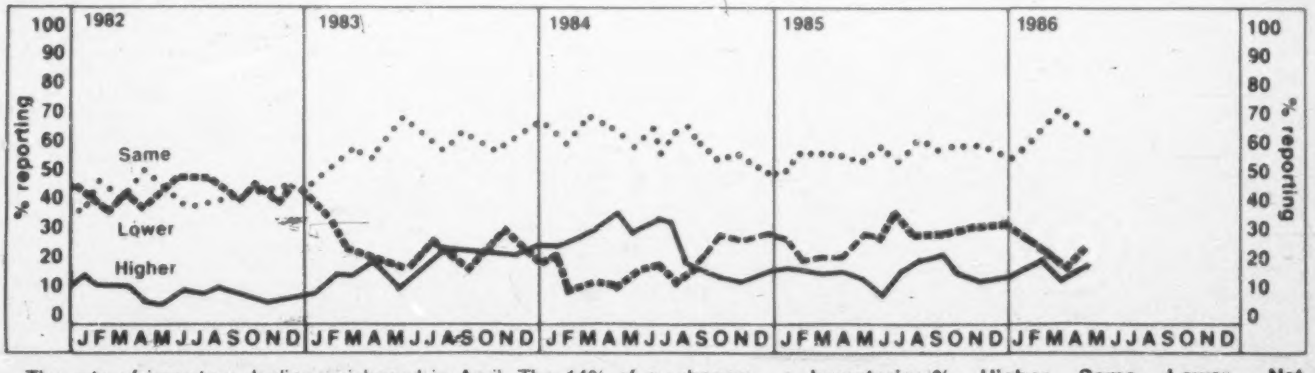
New Orders



The level of new orders remained basically unchanged from the high rates of the previous three months. The 37% reporting better new orders in April w the highest percentage reported since June 1984 (also 37%). However, this was offset by the increase to 18% of those reporting new orders as worse. Thus the net difference remained the same (+19).

New Orders %	Better	Same	Worse	Net
April	37	45	18	+19
March	33	53	14	+19
February	35	53	12	+23

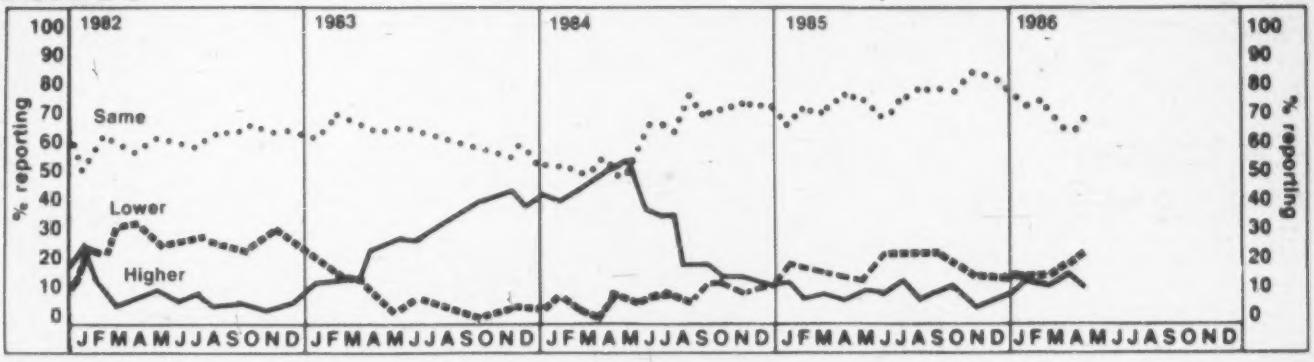
Inventories



The rate of inventory decline quickened in April. The 14% of purchasers reporting higher inventories was more than offset by the 24% who said their inventories were lower, resulting in a continued drop in the net difference to −10 from −8 in March and −3 in February.

Inventories %	Higher	Same	Lower	Net
April	14	62	24	−10
March	11	70	19	− 8
February	17	63	20	− 3

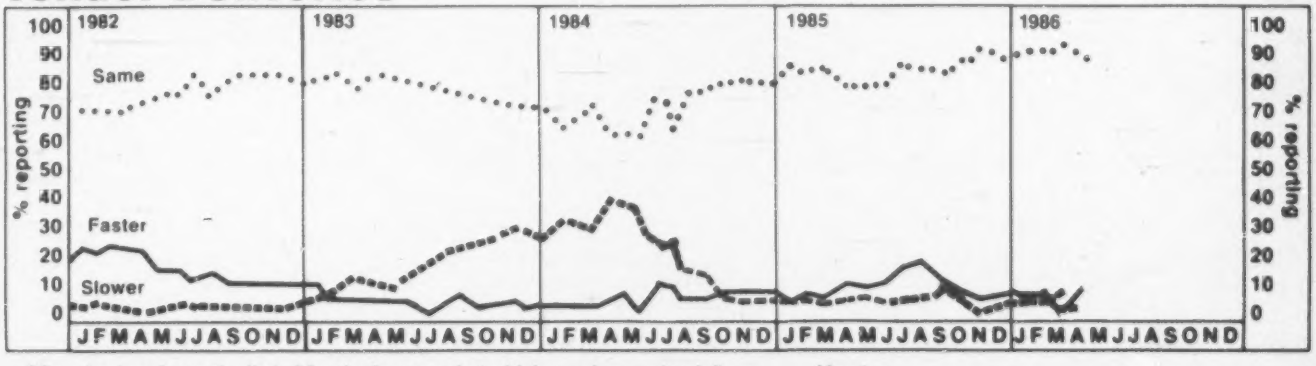
Prices



Prices declined further in April as the effects of lower petroleum prices rippled through to related products. The 21% reporting lower prices is the largest percentage reported since June 1985 (23%). April is the fifteenth of the last seventeen consecutive months in which more purchasing managers reported lower, rather than higher, prices.

Prices %	Higher	Same	Lower	Net
April	11	68	21	−10
March	17	66	17	0
February	13	73	14	− 1

Vendor Deliveries



After slowing dramatically in March, the speed at which vendors make deliveries increased, reflecting the slowing in production and the related demand for materials. Except for titanium dioxide being reported short in March, it has now been fifteen consecutive months in which no shortages were reported.

Vendor Deliveries %	Faster	Same	Slower	Net
April	5	88	7	− 2
March	1	92	7	− 6
February	5	90	5	0

Specific Commodity Changes

Once again, energy products were reported lower in price in April. This included fuel oil, gasoline, miscellaneous petroleum products, and (for the first time since January) coal. For the second consecutive month, plastic products and phenol, used in making plastic resins, were lower in price. Caustic soda was reported lower in price for the ninth consecutive month. Two other chemicals, alcohol and benzene, were reported down in price. Steel prices were up for the third consecutive month, and aluminum was up in price for the third time in the past four months. Corrugated shipping containers were reported higher in price, after being reported down in price for the twelve consecutive months ending in January 1986.

UP in Price: Steel, aluminum, and corrugated shipping containers

DOWN in Price: Fuel oil, gasoline, miscellaneous petroleum products, coal, phenol (used in plastic resins for housing and auto products), plastic products, alcohol, benzene (used as a chemical solvent and in motor fuels), and caustic soda (used heavily in petroleum refining and paper making)

In SHORT Supply: None

The National Association of Purchasing Management's *Report on Business* records the actual changes and rates of change in five important categories of data: production, new orders, employment, inventories and vendor deliveries. These five components, as reported, are not adjusted to compensate for seasonal variations.

Economists have devised a variety of formulas to compensate data for seasonal variations. N.A.P.M. cooperates with the U.S. Department of Commerce, which prepares the monthly Purchasing Managers' Composite Index for publication by N.A.P.M. The Department of Commerce adjusts the five above-mentioned components of the *Report on Business*, applies various weights to each and combines them into a single index number. The Composite Index is based on analysis by the U.S. Department of Commerce, and is the only part of the report adjusted for seasonal variations.

Note: The next issue of the *Report on Business* will be available June 2, 1986.

Commodity Reports

Packaging and Containers

Prepared by the N.A.P.M. Packaging and Containers Committee; chairman, Carl D. Dirkse, C.P.M., S.C. Johnson & Son, Inc., Racine, WI.

Overall, the packaging and containers market is characterized by adequate supply and stable prices. Attempts are being made to increase corrugated and plastic prices with mixed results. It appears that no serious damage was done by the can strike, but now concern is being expressed about possible strikes in the steel and aluminum industries. Glass containers continue to be in tight supply.

Metal Cans

Prices are stable and supply is adequate. There are some residual effects from the recently settled strike; the next concern is a possible steel strike in August. Metal cans are losing out to alternative packages.

Fibre Cans

Supply is adequate to surplus, and prices are stable to weak. This market continues to be impacted by the conversion of oil cans to plastic.

Glass

The glass supply continues to be tight due to previous plant shutdowns. Long lead times are common, and some price increases have been implemented.

Molded Plastics

The collapse of oil prices is not being reflected in resin prices, and producers are attempting to increase margins. The outlook on resins is cloudy — they may go up or down. Supply is adequate and some price increases have held.

Films

Supply of films is adequate to surplus. Some price increases have been implemented due to resin increases. Again, the future for resin prices is cloudy due to manufacturers attempting to increase margins by taking advantage of the collapsing oil prices. One member mentions that the Koreans are trying to buy their way into this business.

Laminated Stock

Supply is adequate and prices are relatively stable. Concern is being expressed over a possible strike by the aluminum foil producer unions.

Metal Drums

This is a buyer's market, offering plenty of capacity and weak pricing. Some volume is being lost to plastic. Concern is being expressed regarding a possible steel strike in August.

Fibre Drums

Plenty of capacity exists for fibre drums and prices are stable. Manufacturers are trying to find new uses for this container.

Folding Cartons

This continues to be a buyer's market, with plenty of capacity and weak pricing. Some progress is being made toward developing this product for liquid packaging.

Corrugated

It is the same old story on corrugated, with plenty of capacity and suppliers trying to implement price increases with little success. There is little reason to believe that this scenario will change significantly, although the export market on liner board is strengthening due to the weakening dollar.

Bags

The bag market is strengthening. Some price increases have stuck and supply is still adequate.

Attention Readers!

The Packaging & Containers Committee is looking for more members. The only obligation is to complete a short survey four times a year. If interested, please contact the chairman, Carl D. Dirkse, at S.C. Johnson & Son, Inc., 1525 Howe Street, Racine, WI 53403, (414) 631-3237.

Paper Products

Prepared by the N.A.P.M. Paper Committee; chairman, Glenn Farber, C.P.M., Vanier Graphics Corporation, Santee, CA.

During the recent American Paper Institute Paper Week in New York City, the overall pulse of the paper industry appeared to be upbeat and optimistic. With the exception of light weight coated, all grades seem to be running very close to capacity. Bouyed by recent price hikes and import reductions affecting several grades, most mills feel that business will be strong and increasingly profitable — at least for the first half of 1986.

The final 1985 production figures, as compiled by A.P.I., were 67.2 million tons of paperboard and paper production. This came to within 1.8% of the 1984 record production level. Of the total 67.2 million tons, 34 million tons were paper production. The growth leader in the paper production segment was uncoated free sheet paper, which increased 5.6% above its 1984 level. All other grades except tissue papers were flat or declined in total production in 1985.

Newsprint

Newsprint supplies remain abundant; some Canadian and U.S. mills are operating below capacity. Offshore tonnage from Scandinavia still causes concern among North American suppliers, resulting in continued depressed prices. Consumption remains steady with inventories at normal or below normal levels due to excess availability. Newspapers consume the largest supply of paper in the U.S., with a projected consumption of 13.5 million tons annually by 1988. Rumored price increases have not materialized. Labor talks are starting with some British Columbia mills.

Uncoated Groundwood

The availability of this commodity is good to excellent. Seasonal decline in demand is normal for this grade during the spring; demand should increase as the summer season approaches. No additional capacity is anticipated in the near future. Considerable amounts of this grade are imported. Domestic deliveries remain very good; inventories continue to decrease.

Coated Papers

All coated grades are readily available. There is an excess capacity of light weight coated. All respondents report a three to six month projection of abundant availability with only one buyer anticipating some possible tightness as the summer months approach. The light weight coated market will likely stay very soft due to a slowdown in magazine growth, plus the inroads being made by high quality super calendar and roto news sheets. Inventories remain steady or declining; prices are steady or declining on certain grades. Considerable additional capacity is scheduled for 1986, 1987, and 1988, which should hold prices steady for the foreseeable future. The output of No. 3 and No. 4 coated groundwoods should reach 1.338 million tons per year by 1988. There is also a definite shifting from 60 lb. to 50 lb. basis weight for these grades. Demand for the No. 5 light weight coateds should reach 4.819 million tons by 1988.

Uncoated Free Sheets

The growth of this commodity, along with the 20% or greater decline of imports in 1985, has definitely made this grade the shining star of the paper industry. Most uncoated free sheet mills are running very full with a few imposing "reservations" (quasi-allocations) on their customers. Plenty of availability remains, but buyers are not necessarily calling the shots. Mills have successfully implemented additional price increases (two so far in 1986 for some grades). Capacity growth in April might moderate the demand somewhat. Additional startups later this year and in early 1987 will probably keep the supply ahead of demand. However, no additions have been announced beyond early 1987; thus late 1987 or 1988 could become very tight for this grade. This commodity has experienced the most radical change of any of the grades since our last commodity report. Close watching is recommended.

Bleached Bristols

Currently, this grade appears to be readily available but there are indications of some tightening. Buyers appear to be increasing inventories slightly, and lead times are stretching out slightly. Selected price increases (with possible further increases on file folder) may come in the second quarter of 1986.

Paperboard

Paperboard production in 1985 was down 2.5% from 1984 levels. Thus, supplies remain generally ample with only some tightness in the light weight krafts. There is some indication of mill backlogs building for SBS board, but no availability problems are expected for the next six months. The resumption of Jacksonville Kraft should relieve some pressure in the kraft paper market. Mill deliveries are still running about four to six weeks for kraft papers. For SBS and recycled grades, availability is still adequate; delivery is four weeks or less, and no shortages are expected. Prices are somewhat depressed although there is some evidence of possible increases or firming of discounted prices. Linerboard grades are making a great improvement in the export market. If this trend continues, it could stimulate a price increase in the domestic market, since export prices are higher than current domestic prices. Respondents anticipate some increased inventories in these grades.

Pulp

As reported last, pulp producers have dramatically reduced available inventories. In February, there was an indication of a possible second round of price increases in the pulp market; this will definitely stimulate higher paper prices as the mills pass on these pulp increases. However, if current price increases hold, further increases in the next six months will probably be averted.